Chapter 6: Investment Climate

Openness to Foreign Investment Return to top

As a small, open economy, Macedonia continues to take active steps to attract foreign direct investment (FDI), although follow-through remains a concern. The country has enacted legislation that not only ensures a generally equal footing for foreign investors vis-à-vis their domestic counterparts, but also provides numerous incentives to attract such investment. Even before gaining full membership in the World Trade Organization (WTO) in April 2003, Macedonia consistently provided national treatment to foreign investors. The country has concluded a number of bilateral investment protection treaties and other multilateral conventions that impose stricter standards of protection for foreign investors. The legal and regulatory framework is generally favorable, and Macedonia continues reforms in anticipation of EU accession. However, obstacles remain for foreign and national investors alike, including corruption, lack of capacity and communication in bureaucracies, and questions regarding the judiciary's ability to deliver efficient and uniform application of the law, even in high-profile cases. Although many changes have been legislated implementation is inconsistent, largely due to lack of institutional capacity. Macedonia is on the cusp of NATO membership and of beginning accession talks with the EU. However, Greece has blocked further movement on integration due to the protracted dispute over the country's name, resulting in long-term concerns for the country's economic and political stability should Macedonia remain outside these structures.

The Constitution of Macedonia, as the supreme law of the land, guarantees the equal position of all entities in the market, and provides for free transfer and repatriation of investment capital and profits for foreign investors. Macedonia's privatization process is nearing completion, with about 20 companies left in state ownership, and private capital is dominant at the market. Under Macedonian law, foreign and domestic investors have equal opportunities to participate in the privatization of remaining state-owned capital. There is no single law regulating foreign investments. Rather, the legal framework is comprised of several laws, including: the Trade Companies Law; Securities Law; Profit Tax Law; Customs Law; VAT Law; Law on Trade; Law on Acquiring Shareholding Companies; Foreign Exchange Operations Law; Payment Operations Law; Law on Foreign Loan Relations; Law on Privatization of State-owned Capital; Law on Investment Funds; and the Banking Law.

- The Trade Companies Law

This is the primary law regulating business activity in Macedonia. It defines the types of companies allowed to operate in Macedonia, as well as procedures and regulations for their establishment and operation. All foreign investors are granted national treatment, and are entitled to establish and operate all types of private or joint-stock companies. Foreign investors are not required to obtain special permission from state-authorized institutions other than what is customarily required by law.

- Law on Privatization of State-owned Capital

Foreign investors are guaranteed equal rights with domestic investors when bidding on tenders for company share packages owned by the government. There are no legal impediments to foreign investors participating in the privatization process of domestic companies.

- Foreign Loan Relations Law

This law regulates the credit relations of domestic entities with those abroad. Specifically, it regulates the terms by which foreign investors can convert their claims into deposits, shares or equity investment with the debtor company or bank. The Foreign Loan Relations Law also enables rescheduled debt to be converted into foreign investment in certain sectors or in secondary capital markets.

- Law on Investment Funds

A revised Law on Investment Funds was adopted in January 2009. The new law governs the conditions for incorporation of investment funds and investment fund management companies, the manner and supervisory control of their operations, and the process of selection of a depository bank. The law does not discriminate against foreign investors in establishing open-ended or closed investment funds.

- Law on Foreign Exchange Operations

This law establishes the terms for further liberalization of capital transactions. It regulates current and capital transactions between residents and non-residents, the transfer of funds across borders, as well as all foreign exchange operations. All current transactions of foreign entities are allowed. There are no restrictions for non-residents to invest in Macedonia. Foreign investors may repatriate both profits and funds acquired by selling shares after paying regular taxes and social contributions. In case of expropriation, foreign investors have the right to choose their preferred form of reimbursement. Since 2008, foreign nationals have been permitted to own land in Macedonia, and may invest in or own fixed assets and real estate. Foreign investors may also establish domestic companies of any kind.

Profit Tax Law

Starting from January 1, 2008, the profit tax rate was reduced to 10 percent. At the beginning of 2006, the GOM amended the Profit Tax Law and introduced a withholding tax on income for foreign legal entities. The withholding tax is applied to income from dividends, interest, management consulting, financial, technical, administrative, research and development services, leasing of assets, awards, insurance premiums, telecommunication services, authors fees, and sports and entertainment activities. Income from all of these activities is subject to a 15 percent withholding tax rate, except for income from interest and leasing of real estate, which are taxed at a 10 percent rate. This withholding tax does not apply to legal entities from countries which have signed an agreement for avoiding double taxation with Macedonia. The United States does not have such an agreement with Macedonia.

- Other Legal Considerations

Foreign investment may be in the form of money, equipment, or raw materials. According to the law, foreign investors have the right to receive the full value of their investment in the case of nationalization, a provision which does not apply to national investors.

The privatization process is governed by the Law on Transformation of Enterprises with Social Capital (Official Gazette 38/93) and the Law on Privatization of State-owned Capital (Official Gazette 37/96). To finalize the privatization of remaining loss-making and bankrupted state companies, the government offered large discounts on the nominal value of the shares and did not impose employment and investment requirements. The power distribution company is the largest state-owned utility privatized so far.

Foreign investors are allowed to invest directly in all industry and business sectors except those limited by law. Investment in the production of weaponry and narcotics is prohibited without government approval. Investors in some sectors, such as banking, financial services, and insurance, must meet certain licensing requirements that apply equally to domestic and foreign investors.

Conversion and Transfer Policies Return to top

Macedonia's national currency, the denar (MKD), while fully convertible within the domestic market, is not convertible on foreign exchange markets. Conversion of most foreign currencies is possible on the official foreign exchange market. In addition to banks and savings houses, numerous authorized exchange offices also provide exchange services. The National Bank operates the foreign exchange market, but participates on an equal basis with other entities. Required foreign currency reserves are spelled out in the banking law. There are no restrictions on the purchase of foreign currency by residents.

Parallel foreign exchange markets do not exist in Macedonia, largely due to the long-term stability of the denar. The National Bank has pursued a strategy to maintain a stable exchange rate by pegging the denar to the Euro and keeping inflation low. The National Bank has been largely successful in its efforts to maintain the peg.

The Constitution of Macedonia guarantees the free transfer and repatriation of investment capital and profits. By law, foreign investors are entitled to transfer profits and income without being subject to a transfer tax. Investment returns are generally remitted within three working days.

Expropriation and Compensation [Return to top]

There have been no expropriation measures taken since the 1950s, and there is no reason to expect the government will take such action in the future. There have been no demonstrated tendencies of authorities to discriminate against U.S. investments; to the contrary, the government seeks to encourage U.S. and other foreign investment. The government does not impose confiscatory taxes. According to the Constitution of Macedonia and the Law on Expropriation (Official Gazette 33/95, amended Official Gazette 20/98, 40/99, 31/03, and 46/05), foreign ownership is exempt from expropriation except during instances of war or natural disaster, or for reasons of public interest. Public interest, as defined by this Law, includes the following:

- Construction of infrastructure;
- Construction of power stations, waterworks, water supply systems, postal and communication systems and all accompanying and supporting infrastructure;
- Construction of buildings for defense and civil protection and regulation of border crossings;
- Buildings and equipment for research of natural resources, education, science, health, culture, social security, athletics or activities; and
- Building settlements following extreme natural disasters and relocation settlements.

The beneficiary of expropriation is the state, especially when it allocates finances for public service, public enterprise, public funding and local government units. Under the Law on Expropriation, the state is obliged to pay market value for any property expropriated. If the payment is not made within 15 days of the decision brought for expropriation, default interest will be calculated.

In 2002, under the Law on Denationalization (http://www.finance.gov.mk/gb/laws/law_on_denationalization.pdf), the government pursued an ambitious plan for returning or providing compensation for nationalized property. In 2007, it revived the project by extending another deadline, until the end of 2007, for receiving denationalization claims. Claimants filed a total of about 25,000 claims, out of which about 13,000 cases have resulted in either return of property or compensation paid to rightful owners.

Dispute Settlement [Return to top]

Spurred by EU harmonization and deep engagement by the international community, Macedonia's legal system has undergone substantial reform. However, administration of justice is not always uniform, and the courts are often slow, inefficient, lacking in adequate resources, and subject to political pressures and corruption. In 2009, international observers spoke out against significant improprieties in the conduct of a case involving the country's largest single investor, Austrian power distributor EVN. The resulting basic court ruling was reversed on appeal and returned to the lower court. The case remains in litigation. Repeated anecdotal evidence indicates that judges continue to face improper pressures on a regular basis, while the system of appointments for the nations Judicial Council place a premium on political considerations.

Under Macedonian law, arbitration of international disputes is distinct from that of domestic disputes. The parties involved in an international dispute may agree to settle through domestic litigation (Official Gazette Number 79/05; September 21, 2005), through mediation (Law on

Mediation; Official Gazette 60/06; May 15, 2006), or foreign arbitration tribunal (Official Gazette Number 39/06; March 03, 2006). Ratified international agreements override domestic legislation.

International arbitration is recognized and accepted under the Law on Arbitration. The government accepts binding international arbitration on investment disputes and has registered over 40 internationally-accredited arbiters. An arbitration court functions within the Economic Chamber, but this dispute resolution mechanism remains underutilized.

Macedonia has signed or inherited from the former Yugoslavia a number of bilateral and multilateral conventions on arbitration, including: the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA); the New York Convention of 1958 (governing the recognition and enforcement of foreign arbitral awards); and the Geneva Convention on the Execution of Foreign Arbitral Awards. Macedonia is also a party to the Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States, and the European Convention on International Commercial Arbitration.

The Law on Courts provides for a three-tiered court system: the Basic Court (or Court of the First Instance), the Appellate Courts and the Supreme Court. In 2007 an Administrative Court was established to try administrative law cases. A Constitutional Court adjudicates constitutional issues.

In an effort to provide better resolution of business disputes and improve the business environment, a Law on Mediation was adopted in 2006. This legislation provides for a testing, training, and certification of experts in different fields to act as mediators, administered by the Ministry of Justice. An attempt to introduce mediation in pilot courts through U.S.-funded technical assistance produced modest results, largely due to lack of public awareness and reluctance of legal practitioners to utilize this option.

Performance Requirements and Incentives Return to top

In its bid to attract foreign investment, the government has enacted a number of incentives and continued an extensive promotional campaign through international media outlets. However, poor coordination, overlapping responsibilities, and duplication of staff among government institutions complicates investor aftercare.

Both the Law on Customs and Law on Profit Taxes offer incentives to foreign investors. Foreign investors are eligible for profit tax exemptions for: Profits generated during the first three years of operation, in proportion to the amount of foreign investment; All profits reinvested in the company; Profits invested in environmental protection; and Profits invested in "underdeveloped" regions of the country. Companies with at least 20 percent foreign capital are exempt from customs duties for the first three years after registration. Moreover, a flat tax for corporate and personal income stands at 10 percent, a fact that the government has highlighted in public campaigns to attract foreign direct investment.

Foreign investors are not required to purchase from local sources or to export all of their production. There are also no requirements for the government to be a partner in an enterprise. Commercial agreements determine which entity retains control over the investment revenue. Furthermore, there are no requirements for reducing foreign equity over time or for transferring technology.

The government places an emphasis on greenfield projects in underdeveloped regions, and offers tax deductions as an incentive to develop, for example, in mountainous territory, border zones, or rural regions.

The Law on Residency of Foreign Citizens sets requirements for both working and resident visas. There are some non-discriminatory limitations on obtaining a visa. A foreign citizen working in Macedonia can be issued a multiple entry visa. An employer should apply to the Employment Bureau to obtain a work permit for any foreign employees working in Macedonia on a temporary or permanent basis.

There is no discriminatory export or import policy affecting foreign investors. Almost 96 percent of total trade (export/import) is unrestricted, with some exceptions for textile products. Current tariffs and other customs-related information are published on the Customs website, http://www.customs.gov.mk/en/DesktopDefault.aspx .

Right to Private Ownership and Establishment

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Under Article 30 of the Constitution of Macedonia, the investor's right to own property is guaranteed. Foreign investors may acquire property rights for buildings and rights for other immovable assets to be used for their business activities. They may acquire residential property, as well as directly own construction land (Law on Construction Land; Official Gazette Number 82/08; July 08, 2008). Ownership of property requires preservation of specific rights that serve both the individual and the community. For example, no person may be deprived of his/her property or the rights deriving from it unless the use of that property affects the general welfare of the public. If the property is expropriated or restricted, rightful compensation based on its market value is guaranteed.

Under Macedonian law, foreign and domestic private enterprises have the right to establish and own business enterprises, engage in all forms of business activity, and freely establish, acquire, and dispose of interests in business activities. The Law on Protection of Competition (http://www.kzk.gov.mk/eng/law.asp; Official Gazette Number 04/05; January 25, 2005), amended in 2006 and again in 2007, is intended to guarantee fair business competition.

Protection of Property Rights

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While the legal basis for protection of ownership of both movable and real property exists, implementation remains incomplete. The lack of an effective cadastre system combined with excessively centralized control of government-owned “construction land” throughout the country continued to impede business and investment. Delay and unexpected expense to investors has been caused by the lack of both coordinated zoning plans on the regional and local level and an efficient construction permitting system. Additionally, utilization of land by investors is inhibited by the large number of lingering property ownership disputes. However, efforts to improve the registration of real estate through an electronic service have helped to increase the security and speed of real-estate transactions.

The Government continues to seize and destroy counterfeit items and has taken some legal actions against those who produce and sell counterfeit goods. Nevertheless, overall enforcement remains weak, and counterfeit goods remain common in shops and markets throughout Macedonia. As an EU candidate country, Macedonia is obliged to harmonize its IPR laws and regulations with EU standards, and to demonstrate adequate enforcement of those laws. The Government's Secretariat for European Affairs is responsible for coordinating this effort.

Intellectual Property Rights are protected by the Law on Industrial Property, enacted in 2002 and amended in 2006; the Law for Authors and Common Rights, enacted in 1995 and amended in 2005; and the Law on Customs Measures for Protection of IPR, enacted in 2006. The State Institute for Industrial Property governs patents, trademarks, service marks, designs, models and samples. The protection of author's rights (music, film and television, books, software, etc.) is administered by the Inspection Service within the Ministry of Culture, while the State Market Inspectorate is responsible for monitoring markets and preventing the sale of counterfeited or pirated goods.

Under the Law on Customs Measures for Protection of IPR, the Customs Administration has enhanced authority to investigate cases of counterfeit goods, and has the right to seize preemptively suspect goods, preventing their further distribution pending final disposition.

The penalties for IPR infringement depend on the seriousness of the violation. In order of severity, the penalties can include: 30 - 60 days closure of businesses caught selling counterfeited or pirated goods, monetary fines of up to 5,000 euro, or prison sentence up to 5 years. IPR cases are not handled by specialized courts.

Macedonia joined the World Intellectual Property Organization (WIPO) in 1993, and in 1994 became a member of the Permanent Committee of Industrial Property Protection Information of WIPO. As a successor to the former Socialist Federal Republic of Yugoslavia, Macedonia is a party to international conventions and agreements that the former Yugoslavia signed prior to Macedonia's independence.

Transparency of Regulatory System

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There are no laws, policies, or legal regulations that formally would impede foreign investment in Macedonia. Unfortunately, excessive bureaucratic 'red tape' still poses difficulties in all spheres of government administration, providing opportunities for corruption and delaying administrative processes. Reports of inefficient and corrupt practices remain common.

Since 2006, the government has produced extensive legislative reform through a "regulatory guillotine" process that sought to identify excessive regulatory procedures. Over 50 percent of administrative procedures were eliminated in this process. The government is now in the early stages of a Regulatory Impact Assessment, which is intended to increase transparency in adopting new regulation by involving interested parties in all phases of preparation.

As a result of these reforms, in 2009 the World Bank rated Macedonia the third most improved state in terms of economic reforms, out of 178 countries. In the World Bank's "Doing Business 2010" report, Macedonia moved from 71st to 32nd place in the rankings on the ease of doing business, with 183 countries ranked. However, new reforms often are not fully implemented due to a lack of administrative capacity, or the reforms are not comprehensive. While some reforms have had the effect of contributing to Macedonia's "Doing Business" report ranking, the effect has not been as dramatic for the business and investment environment as a whole.

Efficient Capital Markets and Portfolio Investment Return to top

There are no legal barriers to the free flow of financial resources and portfolio investments. Financial resources are almost entirely managed through the Macedonian banking system. In 2009, foreign capital was present in 17 out of a total of 18 banks, and was dominant in 14 banks. According to the National Bank of the Republic of Macedonia (NBRM), at the end of the first half of 2009, foreign investors' share in total banking assets was about the same as in 2008, 73.5 percent. As the banking sector felt the effects of the global economic crisis in the first half of 2009, the percentage of non-performing loans (NPL) in the total credit portfolio of the banking system at the end of June 2009 increased by 2.1 percentage points from the same period of 2008 to 7.6 percent. The Macedonian banking sector weathered the crisis relatively smoothly and the economy began to stabilize in the second half of 2009. A major change in the NPL percentage is not expected. Supervisory monitoring by the NBRM has been further strengthened, enhancing depositors' confidence. Banks enjoy high liquidity but a relatively low intermediation rate. Credit is available on the local market and allocated on market terms. Credit growth in 2009 was limited to 2.3 percent on annual basis with few measures from the NBRM, as a defense mechanism for protecting the domestic currency and the soundness of the financial system, given the world financial crisis. Retail interest rates in 2009 increased compared to the previous year, as a response to the increase of the Central Bank bills' rate from 7 percent to 9 percent. The weighted average lending rate of the banking system at the end of November 2009 was 10.2 percent, while the deposit rate was 7.4 percent.

Domestic companies secure financing primarily from their own cash flow, due to lack of corporate bonds or securities as alternative credit instruments. Because of the scarcity of private financing, credit demand is high, affecting interest rates. The leasing market, which expanded in 2008 has also suffered from the crisis in 2009, and competition for clients has increased. However, all institutions providing financial services other than banks have a total market share of less than 3 percent.

Although showing significant improvement, Macedonia's securities markets are still modest in turnover and capitalization. The establishment of the Macedonian Stock Exchange (MSE) in 1995 made it possible to regulate portfolio investments. Until 2005, activity on the stock market was extremely limited, but the offer of shares from well-established companies since 2005 has attracted both foreign and national investors. Trading at the MSE increased in the first half of 2007, and foreign portfolio investors were the driving force of the higher turnover and increased trading. After reaching its peak in August 2007, MSE index has continuously dropped since, reflecting the effects of the global financial crisis. Foreign portfolio investors accounted for 41.3 percent of the total MSE turnover in 2009, compared to 81.8 percent in 2008. The Macedonian Security and Exchange Commission (SEC) must license all MSE members for trading in securities, while regulating the market. MSE has two market segments: the Official Market, and the Regular Market. Companies listed on the Official Market must publicly disclose any price sensitive information related to their operation on a regular basis. The so called Regular Market has two sub-segments: a Market for publicly-held companies, which includes companies that have special reporting requirements towards the SEC; and a Free Market, which includes all other companies that provide minimal disclosure of records. Thirty-six companies were listed on the Official Market at the end of 2009. Most of the trading activity in 2009 took place on the Official Market, where better-standing companies are listed and there is greater transparency and information disclosure. Individuals do trade at the MSE, but mostly on their own, rather than through an investment fund. In late 2007 and in 2008, a few investment funds appeared at the market. However, the emergence of the global financial crisis severely limited their operations, and few brokerage houses closed in 2009. Government paper is present on the stock exchange in the form of denationalization bonds, frozen foreign currency bonds and a few special purpose bonds. In January 2004, the government started issuing treasury bills, and has diversified the terms of maturity, striving to move more to longer-term bills. In 2009, it started issuing T-bills with a foreign exchange clause, which were very attractive for the banks. A fully convertible current account puts no restrictions on portfolio investments, but short-term capital inflows are still relatively low even to regional standards. Full liberalization of the capital account, allowing Macedonians to open foreign bank accounts from Macedonia, had been expected in 2009, but was postponed due to the economic crisis.

Macedonia has no regulatory defense measures directed against foreign investment. Similarly, there are no private or government efforts directed toward restricting foreign entities from investment, participation, or control of domestic enterprises, consortia or industrial organizations. On the contrary, the GOM in 2007 launched an expansive campaign to attract foreign investors, which included promoting Macedonia in many of the world's leading newspapers and magazines, and visiting many governments, businesses and business associations throughout the world. In addition, the government sent 20 economic promoters in different countries in the world to attract foreign investors, and is training to send eight more in 2010. Macedonia is in the process of harmonizing its legal and regulatory systems with international, primarily European Union, standards.

Competition from State Owned Enterprises Return to top

State owned enterprises (SOEs) are considered to be all public enterprises in which the government is the dominant shareholder. The Constitution of Macedonia provides for the private enterprises to compete with public enterprises under the same terms and conditions with respect to access to markets, credit, and other business operations, including licenses and supplies. Under the law, public enterprises are not given any favorable position or material advantages. There are state owned enterprises operating in several sectors of the economy, such as energy, banking, water supply, communal utilities, and public transport. Also, there are sectors such as production of weaponry and narcotics in which private enterprises are prohibited to operate, unless they have a special government approval. General managers of the SOEs are usually appointed by the government. SOEs have Board of Directors usually comprised of internal managers and external members appointed by the government. However, the general managers of SOEs routinely report to a line minister. A sovereign wealth fund does not/not exist in Macedonia.

Corporate Social Responsibility Return to top

Although activities to promote corporate social responsibility have created some degree of awareness, corporate social responsibility remains an unclear and nascent concept. It is often perceived as an obligation pertaining only to large and profitable companies, with most businesses focusing on priorities required to turn a profit.

The American Chamber of Commerce in Macedonia has organized Business Forums with an aim of helping integrate the corporate social responsibility into business practices, and to make businesses become responsible to all of their stakeholders. After two years of its existence, the National Corporate Social Responsibility Body also is working on mobilizing companies to incorporate the corporate social responsibility practices in their strategies.

Political Violence Return to top

The Ohrid Framework Agreement, signed in August 2001, ended the inter-ethnic conflict of that year by granting greater legal and political rights to Macedonia's ethnic Albanian and other non-majority communities. Since then, political violence has essentially ceased and the country has shifted its focus from security and stability to economic development and integration into the EU and NATO. A contributor to peacekeeping efforts in Afghanistan and elsewhere, Macedonia has moved from being a consumer to being a net provider of international security and stability. Criminal violence in some areas remains a concern, although the crime rate in the country overall is relatively low.

Corruption Return to top

Though most of the necessary laws are in place, enforcement is weak and the public is skeptical of the government's willingness to prosecute corrupt officials within its ranks. The public generally views the police, courts, customs agency and the healthcare sector as the most corrupt public institutions. Instances of selective prosecution have compounded public mistrust of government institutions. United States investors and businesspeople have reported being solicited for bribes. Corruption frequently is related to lack of capacity, as regulators and bureaucrats, not fully understanding their own duties and responsibilities have been reported to feign reluctance to act until a bribe or other incentive is offered to justify their taking the “risk” of fulfilling their duties. Transparency International gave Macedonia a score of 3.8 (on a 1 to 10 scale where 10 is least corrupt) on the 2009 Corruption Perception Index, a slight improvement over Macedonia’s score of 3.6 in 2008.

In the last two years the government has reduced opportunity for corruption through “e-government” systems for managing international cargo transport licenses, issuing export/import licenses, and managing public procurement. The simplified and automated processes have resulted in reduced the opportunities for corruption and enabled businesses to monitor the status of their applications in these areas.

The Law on Criminal Procedure criminalizes bribery and abuse of official position. Other anti-corruption laws include the Law on Money Laundering Prevention and the Law on Corruption Prevention, which provide for penalties including prison and confiscation of illegally-obtained property. Macedonia has signed the Organization for Economic Cooperation and Development's (OECD) Convention on Combating Bribery. Macedonia ratified the UN Convention Against Corruption in early 2007, and has ratified the UN Convention against Transnational Organized Crime.

Bilateral Investment Agreements Return to top

Macedonia has concluded an "Agreement For Promotion And Protection Of Foreign Direct Investments" with the following countries: Albania, Austria, Bosnia and Herzegovina, Bulgaria, Belarus, Belgium, Luxembourg, Germany, Arab Republic of Egypt, Iran, Italy, Serbia, Montenegro, People's Republic of China, Republic of Korea, Malaysia, Poland, Romania, Russia, People’s Republic of China, Slovenia, Turkey, Ukraine, Hungary, Finland, France, the Netherlands, Croatia, Czech Republic, Switzerland, and Sweden.

Macedonia is a signatory of three multilateral Free Trade Agreements:

- SAA (Stabilization and Association Agreement) with the EU member-states;
- EFTA (European Free Trade Agreement) with Switzerland, Norway, Iceland and Liechtenstein;

and
- CEFTA (Central European Free Trade Agreement) with Albania, Moldova, Croatia, Serbia, Montenegro, Bosnia and Herzegovina and Kosovo.

Bilateral Free Trade Agreements are signed with Turkey and the Ukraine.

Macedonia does not have a bilateral investment or double taxation treaty with the U.S.

OPIC and Other Investment Insurance Programs Return to top

Financing and insurance for exports, investment and development projects are made possible through agencies such as the U.S. Trade and Development Agency (TDA); the U.S. Export-Import Bank (EX-IM); the Overseas Private Investment Corporation (OPIC); the European Bank for Reconstruction and Development (EBRD); the International Bank for Reconstruction and Development (World Bank); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the Southeast Europe Equity Fund (SEEF). Most of the funding for major projects is achieved through co-financing agreements, especially in the transportation, telecommunications and energy infrastructure development fields.

OPIC and MIGA are the country's chief investment insurance providers. OPIC insurance and project financing have been available to investors in Macedonia since 1996. OPIC's three main activities are risk insurance, project finance and investment funding. MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors making qualified investments in developing member countries. MIGA covers investors against the risks of currency transfer restrictions, expropriation, breach of contract, and war or civil disturbance.

Though its primary focus is investment assistance - including direct loans and capital guarantees aimed at the export of non-military items – EX-IM also provides some insurance policies to protect against both political and commercial risks. TDA, SEEF, World Bank and EBRD focus more directly on financing agreements.

Labor Return to top

Relations between employee and employer are regulated by an individual employment contract pursuant to Section II, Articles 13-21 of the Law on Working Relations. Employment of foreign citizens is regulated by the Law on Foreigners. The employment contract, which must be in writing and kept on the premises, should address the following provisions: description of the employee's duties, duration of the contract (finite or indefinite), effective and termination date, location of the work place, hours of work, rest and vacation periods, qualifications and training, salary and pay schedule.

The law is relatively flexible with regard to working hours. Normal working hours for an employee are eight hours per day, five days per week. According to labor regulations, an employee is entitled to a minimum of 20 working days and a maximum of 26 working days paid annual leave during the course of a calendar year. Work permits are required for foreign nationals. There is, however, no limitation on the number of employed foreign nationals or the duration of their stay.

There are two main associations of trade unions - The Union of Trade Unions and the Confederation of Free Trade Unions. Each association is comprised of independent branch unions from the public and private business sector.

Trade unions are interest-based, autonomous labor organizations. Membership is voluntary and activities are financed by membership dues. Almost 75 percent of legally employed workers are dues-paying union members. Due to the difficult economic climate and political infighting, the unions as a rule have not exercised much leverage vis-à-vis employers in recent years.

National collective bargaining agreements are negotiated between the labor unions, representing the employees; the Ministry of Labor and Social Welfare, representing the Government; and the economic chambers and the employer's associations, representing the employers. There are two main agreements for public and private sector on the national level, and separate contracts are negotiated by the branch unions, or at the industry or company level. The primary pressures that unions face are related to high levels of unemployment and the privatization of inefficient state companies.

Foreign-Trade Zones/Free Ports

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There are four major designated Free Trade Zones in Macedonia: Skopje 1 (Bunardzik) and Skopje 2 - an area north of Skopje; an area in the city of Shtip; and an area in the city of Tetovo. Amended legislation (http://www.fez.gov.mk/law.asp) has been prepared for permitting and regulating such zones, and a Directorate for Technological Industrial Development Zones (http://www.fez.gov.mk) was established in order to conduct activities regarding the development, establishment and supervision of activities in the free economic zones.

The US company Johnson Controls, an automotive components manufacturer, in 2006 invested in a manufacturing plant in the Bunardzik FTZ and began production operations in mid December 2007. The Johnson Controls factory produces automotive electronic equipment and employs 100 workers. With planned additional investments, the company will increase its production capacities and the number of employees will grow to 500, by 2013.

Foreign Direct Investment Statistics

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1. Net Annual Foreign Direct Investment by Year ($ millions):

Year	$ Millions
2000	215.1
2001	447.1
2002	105.6
2003	117.8
2004	323.0
2005	97.02
2006	424.2
2007	699.1
2008	587.0
Q1–Q3 2009	128.9

(Source: National Bank of Macedonia)

2. Net Foreign Direct Investment by Country ($ millions) (for selected countries):

Country	**2004**	**2005**	**2006**	**2007**	**2008**	**H1 2009**
Greece	49.7	21.8	51.2	61.2	10.8	-103.5
Germany	10.4	-0.5	0.7	12.6	6.0	-0.2
Austria	20.4	-8.4	155.2	14.5	141.8	49.3
Hungary	5.6	-4.8	1.0	99.9	-12.2	-0.02
Switzerland	34.0	21.4	27.2	42.4	37.0	12.2
Slovenia	7.6	11.0	12.9	85.6	114.9	133.9
Netherlands	41.7	15.1	18.5	37.1	3.5	127.1
Serbia	0.5	6.5	19.0	75.5	5.0	0.7
Great Britain	6.7	0.2	15.1	55.0	53.2	-67.6
Cyprus	3.0	5.8	34.0	4.5	6.9	1.8
U.S.A.	37.6	0.04	7.8	2.2	13.1	6.8

(Source: National Bank of Macedonia)

3. Top Foreign Investments through Privatization and Post-Privatization:

Name	**Country**	**Investment**	**Size(US$m)**
Stonebridge	(various)	Makedonski Telekom	346.5
EVN	Austria	ESM Distribution	270.2
Steiermarkische Bank und Sparkasse AG	Austria	Invest Banka	50.3
National Bank of Greece	Greece	Stopanska Banka Skopje	46.4
Demir-Halk Bank	The Netherlands	IK Banka	34.3
Balkanbrew Holding	Greece	Skopje Brewery	34.0
Hellenic Petroleum	Greece	OKTA refinery	32.0
Société Générale	France	Ohridska Banka	30.4
Titan, Holderbank	Greece, Switz.	Usje Cement Factory	30.0
Balkan Steel	Liecht.	Ladna Valalnica	21.0
Centralna Kooperativna Banka	Bulgaria	Sileks Banka	19.6
QBE Insurance	UK	ADOR Makedonija	14.8
Duferco	Switz.	Makstil	11.5
East West Trade	Austria	Centro	11.0
Milestone	Island	KIB Kumanovo	6.4
KuppBall- Transthandel	Germany	FZC Kumanovo	3.4

SCMM	France	Feni-Kavadarci	2.3

(Source: EBRD Investment Profile for Macedonia)

4. Country's Direct Investment Abroad (Year 2007):

Country	**Local currency / MKD**	**USD**
Switzerland	34,518,513	754,833
Bulgaria	24,955,455	545,713
Serbia	14,091,700	308,150
Ukraine	12,479,991	272,906
U.S.A.	3,264,893	71,395

(Source: National Bank of Macedonia)

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